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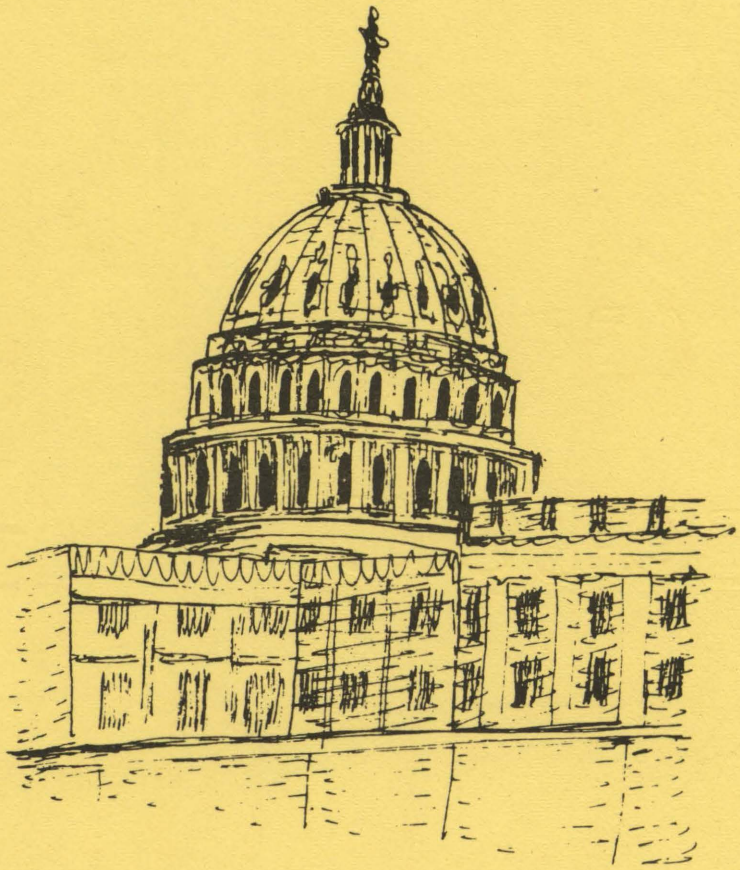
1977 AGRICULTURAL AND FOOD LEGISLATION -- SOME ISSUES AND ALTERNATIVE PROGRAMS



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1977 AGRICULTURAL AND FOOD LEGISLATION

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1977 AGRICULTURAL AND FOOD LEGISLATION: ISSUES AND ALTERNATIVES

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THE SETTING

The new Administration and Congress that arrive in Washington in January 1977 must decide whether to extend or modify the Agriculture and Consumer Protection Act of 1973, which expires at the end of 1977.

Any new legislation must conform to the budget process adopted by Congress in 1974. This requires a set of cost estimates for provisions of such legislation by March 15, 1977. Agreement on a new or modified bill must come from the Senate and House Agriculture Committees by May 15. Congress has until the second week of September to take final action. The new budget process also gives more emphasis on program costs and could influence final legislative decisions.

With this timetable and a new Administration, Congress could simply extend the Act for another year with some modifications. Such action would allow time for debate and discussion on the issues before writing a new Act. The Secretary could establish closer relationships with the Senate and House Committees and the many groups interested in legislation. Specific provisions such as target prices, loan rates or set aside could be considered separately but within the framework of the present act.

Interest and concern for food and agricultural legislation now comes from many diverse groups. The House and Senate Agriculture Committees and the U.S. Department of Agriculture listen to many conflicting voices as proposals and new bills are drafted. Spokesmen for consumer groups and organized labor present their views along with farm organizations and agriculturally-related businesses.

THE 1973 ACT: EXTENSION OR MODIFICATION

New legislation usually builds on past experience. The 1973 Act modified older legislation which still remains in force. This will be the base from which discussion starts in 1977. The concept of target prices and deficiency payments was the major change from past legislation in 1973. Such issues as feed and food grain reserves and conditions for their release or sale, basic support levels and loan rates may give rise to new provisions.

Major Provisions of the 1973 Act

Target prices were established for wheat, feed grains and cotton in the 1973 Act and for rice in 1975. Because market prices have stayed above target prices until 1976 no deficiency payments were made during most of this legislative mandate. Loan rates were set at lower levels in relation to market prices than in previous legislation. The Secretary was given substantial discretionary authority. Natural disaster payments were provided for those prevented from planting or from harvesting if production falls below two-thirds of a normal crop of wheat, feed grains or cotton. A payment limitation of $20,000 per person for all commodity programs was set. A set aside program was authorized for use at the discretion of the Secretary.

Many other items were included in the 1973 Act. The Public Law 480 and Food Stamp programs were extended for four years; dairy price supports, Class I base plans for milk, and incentive payments for wool were continued. A disaster reserve of wheat, feed grains and soybeans was implemented. Annual cost of production studies for wheat, feed grains, cotton, and dairy product were required. Most titles continued existing programs with modest changes.

Other Agricultural Programs

While the 1973 Act considered many basic commodities and programs, it did not cover everything. Other programs covered in separate legislation could come up for consideration. Peanuts, tobacco, and extra long staple cotton, with their separate production control programs are important to certain producers. Sugar, long the subject of special legislation, may return to the agenda. Export and import controls and authority to respond to changing conditions are important issues.

KEY ISSUES

In the first months of 1977 key working relationships will need to be established and agreement sought between the House and Senate agricultural leadership and the new Administration. An agenda would need to be reached quickly if a substantial new Act is to emerge.

An extension of the 1973 Act with some modifications would be easier to achieve. Then the important issues could be clarified before new legislation is enacted. One set of issues will relate to the philosophy behind the Act and the role of the federal government. The other will deal with specific programs such as target prices, commodity reserves, loan rates, resale prices and the ways in which transfer payments may be made to farmers.

Philosophy

Every administration seeks to set its own imprint on policy and programs. In the 1973 Act, the Secretary of Agriculture sought and received substantial authority for discretionary action in response to changing market and political forces. Any piece of legislation defines or establishes the ways in which government relates to the activities of individuals and private business. Legislation is a response to the requests of producers and consumers after public debate. The question is not simply one of little or no government versus much more government. It is one of degree and style. There will be some form of government intervention in many aspects of food and agricultural policy. Debate centers on the conditions under which government intervention or action occurs, where the leadership rests, how much discretion rests with federal officials, and who takes initiative.

The role of government in agriculture and how this role is viewed by farmers, consumers and the general public will be of concern to Congress and the new Secretary. Present legislation and the ways in which it can be used to respond to changing supply-demand conditions will be assessed. The trade-offs between stability of farm and retail prices of food, costs of different programs, the need for reserves, the management of potential surpluses and shortages must also be considered. A philosophy toward federal programs in agriculture will evolve from the Carter administration.

Specific Issues

1. **Target Prices, Loan Rates, and Deficiency Payments.** The level and method of adjusting target prices is a concern to many producers. The relative emphasis on target prices and loan rates has important effects on producer incomes, price stability, government acquisition of reserves or amounts of deficiency payments. Relationships of target prices and loan rates among commodities will affect producer decisions.

2. **Acreage Allotments** have been used as a means of controlling output and in calculating deficiency and disaster payments. The means of establishing allotments on individual farms affects farmers production decisions and the size of deficiency or disaster payments.

3. **Production controls** may involve direct control of output or indirect control through the use of inputs like land or fertilizer. They may be voluntary or compulsory. Production control may involve all crops or specific crops or be tied to conservation.

4. **Special Commodity Programs** have been established for dairy products, peanuts, tobacco, extra long staple cotton, wool and mohair and sugar. These involve individual methods of providing price supports, payments, or production quotas. The issue is whether these special programs should be phased into the system of target prices, lower loan rates, deficiency payments, and less restrictive production established for wheat, feed grains, and cotton in the 1973 Act.

5. **Crop Insurance** has been offered to farmers since 1934 and **Disaster Payments** were provided in the 1973 Act to reduce risks and aid farmers if crop yields dropped substantially. The two programs raise the question of how much and what types of risk protection the government should provide.

6. **Export and Import Controls** affect the conditions under which foreign producers and consumers are to have access to U.S. markets. Reducing or eliminating such controls promotes more international trade and economic benefits to both producers and consumers, although high cost producers may suffer a loss of markets.

7. **Commodity Reserves** have become a significant issue since 1972 because the U.S. government no longer holds large stocks and prices have fluctuated widely. Important questions concern the role of government in acquiring and releasing stocks.

8. **Food Aid** has been provided to low income people in this country through food stamps and overseas through Public Law 480. Originally these programs assisted in disposing of surplus commodities and supported U.S. farm prices and incomes. The questions are how much aid should be given, who should receive it, whether it should be given as food or cash payments in a general income maintenance program, and who should administer it.

REVERTING TO EARLIER BASIC LEGISLATION

If Congress does not extend the 1973 Act or enact new legislation, some present provisions and programs will expire. Others will continue in a changed form under authority of so-called permanent or basic legislation.

The following program authority would revert to existing permanent legislation if no new legislation were enacted in 1977: wheat, feed grains, upland cotton, rice, wool and mohair, milk price support, cottonseed-soybean support price relationship, and CCC minimum sales prices.

The following program authority would expire: Public Law 480, dairy products, indemnity payments program, Class I base plan, CCC donations to the military and VA hospitals, beekeepers indemnity program, and the cropland conversion program.

1977 Agricultural and Food Issues —

TARGET PRICES, LOAN RATES, AND DEFICIENCY PAYMENTS

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WHAT IS THE ISSUE?

A major instrument of U.S. agricultural price and income policy has been price support through the Commodity Credit Corporation (CCC) non-recourse loan program. The Agriculture and Consumer Protection Act of 1973 introduced an additional policy instrument for income support, the target price concept. Designed to vary support inversely with market price, it was initially extended to feed grains, wheat, and upland cotton. Rice was added in 1976 under separate legislation. Deficiency payments are made to producers only if the market price falls below target price levels.

The target price/loan rate instruments are expected to be an integral part of replacement legislation for the 1973 Act. In fact, primary issues in the 1977 debate are expected to center around these concepts. The central issue of the debate will be the support levels, on what basis these should be set, and how they are to be adjusted over time. A secondary issue could be whether to retain the target price concept, depending upon levels adopted for the loan rates.

WHY IS IT AN ISSUE?

The target price concept provides a system of support payments to producers which vary inversely with market prices. Deficiency payments are viewed as income supplements to producers, moderating the adverse effects of short-term price fluctuations. While farmers may produce any number of acres of the program crops (or designated substitute crops), deficiency payments apply only to production from allotted acreages. This feature is in contrast to price support loans for which all of a farmer's production is eligible (except rice, for which loans are limited to "normal" production).

While the target price concept was unique in the 1973 legislation, it has not been fully tried and its usefulness may be debated, depending upon the level of loan rates. If loan rates are raised to relatively high levels in new legislation, target prices could well be phased out. On the one hand is the view that they are not needed with high loan rates. On the other, if loan rates are low and target prices high, the potential for large deficiency payments is increased and the public might be unwilling to finance large treasury outlays with surplus production.

Provisions of the 1973 Act regarding target prices and loan rates were designed to promote a greater reliance upon the market. As this was achieved, certain concerns and greater producer and consumer uncertainty arose due to (1) increased lack of knowledge about future conditions resulting from the absence of government programs with known provisions (in the 1960's, for instance, producers knew that price would approximate the loan rate due to the presence of large stocks); (2) unbounded competition between domestic and foreign consumers (resulting in arbitrary export control and purchase agreements for selected countries); (3) considerably more farm product and food price instability than had existed in several decades, with largely unknown and subtle effects and (4) potentially unbounded increases in farm production costs due to such uncontrollable influences as the international energy situation and widespread inflation with no comparable changes in minimum prices for farm products.

THE CURRENT SITUATION

Under the 1973 Agriculture and Consumer Protection Act, target prices for 1974 and 1975 crops were set at 38 cents per pound for upland cotton, $2.05 per bushel for wheat and $1.38 per bushel for corn with reasonable rates to be set for other feed grains in relation to the rate for corn. Adjustments in target prices for 1976 and 1977 as provided in the 1973 legislation are based on changes in USDA's Index of Prices Paid for Production Items, Interest, Taxes and Wage Rates (PPI) and changes in the 3-year moving average of individual crop yields. Following this adjustment procedure 1976 target prices were 43.2 cents a pound for cotton, $2.29 for wheat and $1.57 for corn.

While upward adjustments caused by increases in the PPI can be partially or totally offset by increases in average yields, the legislation is interpreted to prevent reductions in target prices due to increases in yields. However, target prices may fall below the previous year's level due to declines in the PPI.

Loan rate adjustments are not covered by formula under the current legislation. Generally, upper and lower bounds are prescribed for specific crops and the Secretary of Agriculture is allowed discretion in setting loan rates within those bounds. Once loan rate levels are announced they cannot be reduced for that crop year. They may however, be increased if changed circumstances are judged to justify increases. Loan rates for the 1976 feed grains and wheat crops were increased from earlier announced levels in October 1976, when such a judgment was made, based on declines in market prices to near or below production costs.

Due to a combination of generally low target prices and relatively favorable market prices no deficiency payments were made in 1974 and 1975, and very little loan activity has occurred. This is reflected in the reduced Treasury expenditures for farm programs from $4 billion in 1972 to less than $0.5 billion in 1975. The total amount of deficiency and disaster payments any person may receive under the wheat, feed grain and cotton programs was limited to $20,000 (reduced from $55,000 in the 1970 act). This payment limitation, however, does not apply to price support loans, even though the loans may not be redeemed, or to set-aside payments.

ALTERNATIVES TO PRESENT PROVISIONS

Levels under the 1973 Act were generally viewed as satisfactory (both specified levels, adjustment procedures and bounds for loan rate determination) when the legislation was enacted, but economic conditions since have led to their being criticized as unrealistically low (except in the case of rice).

Most frequently mentioned alternatives deal with setting the initial levels of support (target price and loan rate) at higher levels than currently prevail, and how subsequent adjustments in these levels will be made.

Parity vs. Cost of Production

Farm price supports, prior to target prices/deficiency payments, have been related to parity prices. Loan rates, except for upland cotton, are still related to this concept. Various proposals have been advanced to move completely away from the parity concept to a cost of production index to set both target prices and loan rates.

The parity price for a commodity is determined by a formula which gives this commodity the same purchasing power, in terms of goods and services bought by farmers, that it had in the 1910-14 base period. The parity price is then adjusted, to relate farm prices to the rest of the economy, through a factor obtained by dividing the commodity's most recent 10 year average farm price by the general price level for the 1910-14 period.

The major objection to the parity price concept has been that it only reflects prices and price changes, and does not take account of changes in technology and productivity. The costs of producing a bushel of wheat, however, reflects changes in both input prices and in output per unit of input. Thus, cost of production is viewed by many as a more accurate measure of equitable price levels. Nevertheless, primarily because of its long history of use, the parity price of a commodity continues to be a standard by which many judge the adequacy of present prices.

Cost of production studies were required by the 1973 Act. The Economic Research Service, USDA, conducted a major survey and study of 1974 production costs of feed grains, wheat, cotton, and milk, and now updates those costs annually. These data were used to "establish a current national weighted average cost of production" for the selected commodities and could form the basis for indexing target price and loan rate levels to changes in production costs.

Of course, the 1973 legislation made a major step away from the parity relationship and toward costs of production. But, while the notion of using production costs to establish and adjust loan rates and target prices has the appeal of simplicity and fairness, some serious inherent problems exist with its use.

These problems arise both in measuring the cost of producing farm commodities and in linking target prices and loan rates to that cost. Major difficulties relating to measurement include (1) the lack of market-determined price information for the farmer's own labor and management, (2) the problems of computing a cost for the use of cropland and (3) the extreme variability in the cost of producing a farm commodity across the United States. Relative to the linkage problem, major difficulties involve (1) the possibility of building in a land price-cost spiral and (2) how high to set the level of target price and loan rate relative to the cost of production.

The farmer and his family provide a significant share of the labor and management but what they actually get for their labor, management, and "owned" inputs is the difference between total cash receipts and total cash expenses. It is difficult to determine the true economic cost of these inputs.

Land costs, based on current values and interest rates, make up from 25 to 50 percent of total production costs for most U.S. crops. But what determines this current value? Much farmland is purchased for reasons other than production even when farmers are the buyers. And most U.S. farmland was purchased at far less than current prices.

There are several methods to compute the land costs and these methods give varying results. For 1974 average corn production costs, the land charge could vary from $.44 to $1.15 per bushel depending upon the method by which land costs were computed.

Other costs of production also vary widely among farms. Geographic location may substantially affect

both prices and costs of production. Costs vary widely because of the wide range in management skills of individual producers. And size of farm affects cost per unit of output as operators of larger units are frequently able to achieve price advantages in input purchases and product sales.

Level of Target Prices and Loan Rates

The level of target price and loan rate depends much on the objectives of policy-makers. If market orientation is the major objective, relatively low levels will provide some protection against unusually low prices for the major crops. Some upward adjustment could still be made from 1976 levels.

On the other hand, target prices and loan rates can be viewed as devices to support U.S. farm income, a view generally prevailing in the 1960's. With this perspective, relatively high target price and loan rates are required to support farm prices which would normally be too low to cover costs of production. Market price would likely be continually lower than the target price and near the loan rate. Deficiency payments would be necessary in most years, government stocks would grow as farmers exercised their option not to pay off nonrecourse loans, and government expenditures on farm programs would climb from the relatively low levels of 1973-1976.

Other Considerations

Some concern has been expressed over the relative support levels established for the various covered crops. This concern arises primarily because initial levels and subsequent adjustments under both parity and cost of production concepts are not necessarily related to prevailing market conditions. These concerns might be addressed by (1) allowing some degree of discretion in setting levels to the Secretary of Agriculture, or (2) by linking adjustments to a moving average of market prices.

CONSEQUENCES

Low Target Prices and Loan Rates

A continuation of market-oriented policies, and attendant relatively low support levels, will mean relatively greater price instability for producers and consumers than under prior programs. Producers would receive protection from seriously low prices through the target price-loan rate mechanism but consumer protection from high prices would have to come through some other means – such as food reserves or ad hoc export embargos. Government program costs would continue at a low level and commercial agricultural exports would continue to be competitive in world markets.

High Target Prices and Loan Rates

Use of higher target prices and loan rates to support farm incomes, on the other hand, would substantially decrease price uncertainty on the part of both producers and consumers. The loan rate would essentially set the market price and government farm program costs could be expected to increase substantially. Producers could also expect set-aside provisions to be invoked as a requirement for price support loans as government stocks accumulated. These stocks could be used as a food reserve in times of widespread crop disaster, but might also have depressing effects on both food and farm prices.

If support levels were above world market prices, additional government subsidies would be required to maintain our competitive position in international trade channels. This would also affect our general trade negotiating position.

Specific Consumer Consequences

Consumers are affected by these alternatives primarily in two ways: (1) directly, through the influence of support levels on food prices and (2) indirectly through taxes levied to finance the cost of the government program. Under a low support level market-oriented program, such as has resulted under the 1973 Act, consumers have faced somewhat higher food prices and in the absence of crop surpluses – considerably more price instability. But costs of government farm programs have been substantially lower than in the past.

Under higher support levels, and particularly in combination with a reserves program, more stable prices and smaller price increases could be expected in the short run but higher government program costs would surely result. Should support rates be established at above equilibrium prices the longer term effects, higher feed prices leading to higher meat prices, could well lead to a boost in the overall rate of inflation. Meats make up 51 percent of the food component in the consumer price index.

Support Levels Tied to Costs of Production

Tying target price and loan levels to costs of production could, depending again upon the level of support, have substantial effects on the relative competitive positions of various regions, sizes of farm, and earlier versus recently purchased farms from the standpoint of land acquisition costs. It could also have substantial impact on farm structure, giving added incentives for larger, more capital intensive operations. This would make it even more difficult for young persons to enter farming and place added pressures on farmland prices.

The importance of selecting an "appropriate" land charge becomes even more obvious. If the charge is too high and support rates based on it are above equilibrium price levels, then over production will result and depress prices even more, cause surpluses to accumulate and government costs to increase. Export sales could also suffer. Too low a land charge, of course, leads to protection only from serious price declines and little else.

Yet, if the substantial procedural problems could be overcome, the use of cost of production as a guide for setting loan rates and target prices has inherent appeal and may have advantages over the parity concept.

ACREAGE ALLOTMENTS

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WHAT IS THE ISSUE?

Acreage allotments were brought into being in the 1930's to help raise farm prices. Acreage allotment apportions to individual farmers the national acreage considered appropriate for balancing supply and demand for selected farm commodities. Allotments are used (1) to control production and, (2) to distribute deficiency and disaster payments.

For some crops the national requirements are expressed in volume rather than acreage terms. For such crops a national marketing quota sets forth the quantity of a particular commodity that, in general, will provide adequate and normal supplies. This quantity in turn is translated into acreage and allotted proportionately among states, counties and individual farms.

Should allotments be eliminated as a basis for other programs, and if not should they be updated? If updated, how?

WHY IS IT AN ISSUE?

Acreage allotments were originally established on a commodity basis for the purpose of raising farm prices and controlling production. Allotments were assigned to each farm on the basis of historical cropping patterns.

The short-fall on world production of grain in the early 1970's increased export demand for U.S. feed grains and wheat. U.S. and world prices rose, and farm production control programs came to an end except for tobacco, peanuts and extra long staple cotton.

Acreage allotments, however, continued to be used as a basis for making deficiency and disaster payments under the Agriculture Act of 1973. The shift away from production controls resulted in: (1) dramatically expanded acreage of certain crops and, (2) regional shifts in the location of production.

If the U.S. farm program goes back to acreage allotments to limit production and increase prices, the question exists as to whether the old allotments should be used as a basis for such programs or whether a new allotment based upon a more recent production period should be established. If we do not go back to acreage allotments, the question arises as to the equity of limiting payments on the basis of old allotments.

Marketing quotas and acreage allotments were in effect for extra long staple cotton, peanuts, and most kinds of tobacco in 1976. Rice deficiency payments and disaster payments are also based on acreage allotments.

Current Situation

Under the 1973 Agriculture and Consumer Protection Act acreage allotments were continued for feed grains (corn, sorghum, barley), wheat and cotton as a basis of granting government economic assistance to farmers. Target prices and disaster payments were applicable only to production on allotted acres. All production on farms with allotments is eligible for loans for upland cotton, feed grains and wheat. Allotments could be used for production control under the set-aside program at the discretion of the Secretary.

Allotments have been assigned to farms based on historical cropping patterns as follows:

Crop	Base Years
Upland Cotton	1951-1952-1953
Long Staple Cotton	1951-1952-1953
Corn	1959-1960
Grain Sorghum	1959-1960
Barley	1959-1960
Wheat	1945-1946-1947-1948-1949
Peanuts	1946-1947-1948
Tobacco	1933-1934-1935-1936-1937
Rice	1950-1951-1952-1953-1954

Acreage allotments may be transferred between counties in a state for upland and extra long staple cotton, peanuts and 1976-1977 rice. The Secretary of Agriculture can permit peanut acreage allotment transfers provided they do not add to total supply. The Secretary has no powers over transfers for both kinds of cotton or rice. Inter-county transfers of cotton allotments must be approved by the County ASCS Committee. Rice allotments are transferred between farmers in the same state without Secretary or County Committee approval.

Any value attached to acreage allotment transfers between producers is privately negotiated.

Allotment transfers tend to reflect changes in area of production within each state.

Other Alternatives

Among others, there are three major alternatives for the current system of acreage allotments. These are:

(1) Allow transfer of existing acreage allotments for all crops across county and state lines without Secretary of Agriculture or County Committee approval.

(2) Update the acreage allotments by using the average production record on each farm for the most recent two to three years.

(3) Make all current production eligible for support loans, target price deficiency payments and disaster payments without regard to acreage allotments.

CONSEQUENCES OF ALTERNATIVE PROGRAMS

Transfer Allotments

This method allows current allotment holders to sell their allotments to farmers in areas where production is increasing. It would tend to concentrate production on fewer, but larger farms and may increase total output. Average yields would probably increase and average per unit production costs should decrease.

Since this alternative would tend to boost total production, agribusiness would have access to larger supplies and more agricultural products would be available for export. Higher percentage of production would be produced in the least cost regions thus concentrating location of agribusiness firms.

Consumers will experience slower increase in total food costs relative to the current program because of increased supplies of farm products. There should be less variability in food supply from year to year.

The agricultural production would move out of marginal production regions, lessening food related employment opportunities in those areas. Transfers of allotments would gradually improve the efficiency of agricultural production.

Acreage allotment programs tend to restrict ability of U.S. to provide farm products for export.

Update Allotments

The economic consequences of this method are exactly the same as for the transfer allotment method, except it brings changes in location of production more quickly and profoundly. This method increases efficiency to agriculture more quickly than transfer of allotments and results in increased supply at lower cost. The incidence of allotment leases or sales would be temporarily eliminated.

Updating allotments would continue a basis for controlling production and making deficiency and disaster payments to farmers.

Eliminating Allotments

This is the fastest method for shifting agricultural production to least cost regions, and continuing shifts would continue to occur. Production efficiency would be maximized, cost per unit minimized and overall production would be more responsive to market price changes. Farm income will be more concentrated than under other alternatives discussed.

Consumers food prices will increase more slowly under this system than under any other acreage allotment program. Farm prices will vary more and food supply would be less predictable.

Cost to taxpayers would be less than other discussed alternatives if loan rates are kept well below world price levels.

This method is consistent with the "Right to Food" resolution and should provide maximum exportable volume given favorable prices. It also provides the most sensitive basis for adjusting production to market needs.

PRODUCTION CONTROLS

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Production control involves government restrictions on the quantity of agricultural production. This may be accomplished by either controlling the quantity of inputs used in producing food and fiber or by restricting the quantity that can be marketed. Input control is generally accomplished by limiting the amount of land.

WHAT IS THE ISSUE?

Three major production control issues exist: (1) Should government control the quantity of food and fiber that is produced? (2) If a decision is made to control production, should it be done on an individual commodity basis or cover all commodities? (3) Should control be mandatory or voluntary for all producers?

WHY IS IT AN ISSUE?

U.S. agriculture has chronically been faced with problems of excess capacity, price fluctuation and low returns. Many industries have been able to deal with these problems by some form of voluntary production control. Because of the large number of farmers, voluntary cutbacks in production occur only after great economic hardship to farmers.

Government efforts to support prices have encouraged production, reduced demand and are costly. The result in the 1950's and 60's was extensive governmental production control programs. Up to 60 million acres of land was retired from production in some years. In addition, mandatory control programs existed on a number of commodities. Much debate surrounded the merits of these programs.

Opponents argued that they increased production costs, resulted in resource misallocations, were ineffective and denied farmer freedom to produce. Proponents saw production controls as the only feasible means of tailoring production to market needs, eliminating excess capacity, keeping farm program costs in a reasonable range and raising farm income.

Rapidly expanding demand in the 1970's resulted in ending of government land retirement programs. Remaining production control programs such as for rice and peanuts were strongly criticized as being contrary to the public interest in expanding production to fill both domestic and foreign food and fiber needs at reasonable prices. Production controls were discontinued on rice.

Some suggest that the problem of overcapacity is past. Yet large surpluses of rice exist. Wheat prices have fallen below full costs of production. Another year of high wheat production could result in record stocks, extremely depressed prices, or unacceptably high program costs. Pressures therefore, exist for production control in the U.S. while total world stocks of grain are relatively low and problems of malnutrition exist.

CURRENT SITUATION – THE 1973 ACT

Some of the control provisions of the Agriculture Act of 1970 and earlier legislation were continued in the Agricultural and Consumer Protection Act of 1973. The 1973 Act provides authority for the Secretary of Agriculture to establish cropland set-aside and additional diverted acres and use acreage allotments if he determines that these actions are necessary for wheat, feed grain, or upland cotton. Wheat and cotton marketing quotas were suspended through 1977.

Cropland Set-asides. The Agriculture and Consumer Protection Act of 1973 authorizes the use of cropland set-asides for upland cotton, wheat, and feed grains (corn, grain sorghum, and barley). The Rice Production Act of 1975 authorizes set-asides for rice.

If the Secretary of Agriculture finds that greater restrictions are necessary, he can ask for diversions beyond the set-aside requirement. Farmers who make these additional adjustments are entitled to compensation. There has been no set-aside of cropland under the Act of 1973. Set-asides were not used because supplies were not excessive and the department wanted to encourage production.

Marketing quotas are currently in effect for extra-long staple (ELS) cotton, peanuts, and most kinds of tobacco. Quotas had also been used for wheat and up-

land cotton, but these were suspended by legislation in the 1960's and later by the 1973 Act for 1974-77.

After proclamation, quotas go into effect only if approved by two-thirds of the producers voting in a national referendum. If ratified, all producers who are not granted exemptions are penalized for any production from acreage in excess of that assigned under their allotment. The crop grown on the farm allotment acreage may be considered as the farm quota.

ALTERNATIVES

Alternatives exist with respect to whether production control programs are to be used, whether they are to be applied on a commodity or general basis, and whether they are to be voluntary or mandatory.

Control or No Controls

The Secretary of Agriculture has the authority under the 1973 Act to establish a set-aside. This authority could be extended in the new farm legislation, modified or removed. Modification would likely reduce the discretion of the Secretary in applying controls and increase provisions for mandatory controls.

General or Commodity Controls

Surplus conditions currently exist only in rice and wheat. Incentives will exist to address these problems on a commodity basis and thus impose production controls only on rice and wheat. Commodity controls have been tried before. The effect has been to cut back on the production of the controlled commodity but use acreage to expand production of other commodities. Thus the surplus problem tends to be transferred from controlled product to those not controlled. Controls gradually spread across agriculture. General set-asides which apply to all commodities are more effective in dealing with a general problem of excess capacity in agriculture and allow greater producer freedom and flexibility in adjusting production patterns.

Voluntary or Mandatory Controls

If controls are to be established on either a commodity or general basis they can be either voluntary or mandatory. Voluntary controls exist when the producer has a choice of whether or not he participates in the program. Under voluntary controls the government pays so much per acre to the producer for placing his land in the set-aside program. Payments must be high enough to induce the farmer to put the land in the program. Additional incentives are frequently provided by making eligibility for price support or deficiency payments contingent on set-aside.

Mandatory controls are normally imposed only if two-thirds of the producers vote for them. They may be combined with marketing quotas to make the production control program more effective. Producer compensation for mandatory controls is usually limited to higher product prices and resulting appreciation in land or allotment values.

CONSEQUENCES

Producers benefit from production control programs in the form of higher prices, less price variability and appreciation in land or allotment values. The more effective the program is in controlling production, the greater the benefits to existing producers. So mandatory programs are more effective in raising prices than voluntary commodity programs. If programs are on only a few commodities, those producers' benefits may be at the expense of producers of commodities for which production is not controlled. In addition for any production control program, present producers benefit at the expense of future producers. Future producers must pay the cost resulting from higher land or allotment values.

Agribusiness generally opposes production control programs because they reduce volume of products produced. However, producers may compensate for reduced acreage by applying more inputs such as fertilizer to the remaining land. Thus reduction in inputs and production is frequently less than might be anticipated unless acreage controls are combined with strict quotas.

Foreign consumers experience less supplies available at higher prices. If there is a crop failure on reduced acreage the effect for foreign consumers might be disastrous because the United States is an important source of supply and is likely to take care of domestic needs first, even if it means imposing export controls.

U.S. consumers also experience higher prices. These higher prices result because supply is restricted and cost of production is increased.

Government involvement is greatly increased by production control programs. On the other hand, government costs can actually be reduced. For example, the tobacco production control program is a low cost program. On the other hand, the peanut production control program has a high cost because of high price supports in addition to acreage restriction.

One danger in imposing production controls in the current situation is that if a crop failure should occur it could result in a public rebellion against all farm programs or result in substantially greater government regulation of agriculture. On the other hand, if production is not controlled and support prices are raised substantially, government costs could become so high that all farm programs would be abandoned. Thus a real dilemma currently exists over the production control issue.

SPECIAL COMMODITY PROGRAMS

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The 1973 Agriculture and Consumer Protection Act established price and income support programs for wheat, feed grains, and upland cotton using a combination of target prices, deficiency payments, and cropland set aside. A similar program was established for rice in 1975 and became effective for 1976 and 1977.

What is the Issue?

Special Commodity programs for peanuts, tobacco, and extra long staple cotton have continued, based on the authority from the Agricultural Acts of 1938 and 1949, outside the 1973 act. Dairy and wool and mohair have had special programs based on other legislation. Sugar was handled under special legislation until 1974.

The major issue for these remaining individual commodity programs is (1) whether they continue to operate separately with the special requirements and control programs, or (2) whether they can or should be integrated into those support programs that would use target prices, lower level loan rates and deficiency payments, and place less restriction on producers.

Underlying this issue with each of the special commodity programs is what the appropriate role of supports should be. Are they to stabilize prices and supplies or should they guarantee a return for each producer? The role of target prices also needs to be examined along with where loan rates would be set when target prices are in effect. Are there special conditions that warrant special treatment for a commodity different than those now used for the majority of the agricultural output from wheat, feed grains, rice and cotton?

DAIRY PRODUCTS

Under current legislation dairy products are supported through government purchases to maintain prices at 75 to 90 percent of parity. Although the basic price support legislation goes back to the Agricultural Act of 1949, revisions and modifications were made in the Acts of 1970 and 1973. Currently, manufactured milk is supported nationally at $8.26 per hundred pounds or about 81 percent of parity.

The authority for federal market orders comes from the Agricultural Marketing Act of 1937. The objective was to stabilize prices for producers and assure adequate supplies for consumers.

Existing legislative authority for Class I and seasonal base plans under federal orders, for transfer of CCC stocks to the military and Veterans Administration, and for dairy indemnity payments, are scheduled to expire at the end of 1977.

What are the Issues?

In 1977, three major issues most likely to be discussed are (1) level of support for milk; (2) whether the support price should be adjusted quarterly or semi-annually; (3) whether the Class I Base plan should continue.

A key issue with present dairy programs centers around the mechanisms for setting support levels. Commonly discussed alternatives are: (1) continue to use 75 to 90 percent of parity range and let the government buy to keep manufacturing milk prices at the minimum figure announced by the Secretary of Agriculture; or (2) use a cost of production figure as a basis for support.

The use of parity in setting price support levels is questioned because the index includes many items besides dairy farmers' production inputs.

Use of average production cost figures is stimulating considerable interest and discussion. Costs vary from state to state, by size of farm, and by management ability of the dairy farmer. They vary directly with feed costs and beef prices.

Support prices for manufactured dairy products have been adjusted annually under past legislation. With rapidly changing prices for feed and other inputs, a quarterly or semi-annual adjustment would more closely place support levels in line with changing production costs. However, higher support prices based on rising costs will not reflect consumer demand.

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Class I base plans were established in the Agricultural Act of 1970 and continued through 1977 in the 1973 Act. They are currently in effect in only two markets. The main question is whether production bases using historic production should continue or be dropped. To continue authorization would permit a type of monopoly control of supply that is counter to the direction of other commodity programs. But some producer groups have indicated support for the plan as a means of controlling supply in a period when stocks may be building up. Discontinuing the plan would mean some loss of capital value in the bases owned by producers in those areas where the Class I Base Plan is in operation.

Some more fundamental policy questions revolve around the need to make major modifications in the federal-state order system of classified pricing for milk and dairy products. Some suggest eliminating the present program while others would modify it. These issues are not likely to get major attention in 1977.

PEANUTS

The present peanut program dates back to 1949. Prices are supported by marketing quotas and by nonrecourse loans provided through the three peanut growers associations. The Secretary is required by law to propose marketing quotas every year, regardless of supply.

More than two-thirds of all peanut producers have approved the marketing quotas in a referendum for the past 30 years. The loan level can be set at 75 to 90 percent of parity depending upon supply. Without quota approval, support would be at 50 percent of parity. Under marketing quotas penalties are applied to the excess production of growers who do not comply with their acreage allotments.

In 1976, the average support level was 20.7¢ per pound, the 75 percent of parity minimum. Prices to growers are expected to average 20.5¢ per pound.

In recent years, the national allotment have been set at the minimum allowed by law of 1.6 million acres. Surpluses have built up as yields have risen faster than the demand for edible peanuts. It is expected that one-fourth of the 1976 crop of 3,671 million pounds will be acquired by the government.

To reduce its inventory, the CCC instituted a toll crush program in 1975 by which crushers acquired ownership of the meal but delivered the oil to CCC. This oil is used for manufacture of shortening, margarine, and cooking and salad oils, which are distributed through domestic and foreign donation programs.

Policy Alternatives

Policy makers face these alternatives for peanuts: (1) keep the present program with the marketing quotas; (2) keep the present program but further reduce allotments to balance supplies with demand for whole peanut uses; (3) set up a two price system with a higher price for use of whole peanuts and a lower price for crushing into oil and meal; (4) shift to a program with target prices, lower loan rates, and deficiency payments similar to wheat and feed grains; (5) shift to a program similar to soybeans where there are no acreage allotments and with loan rates near average market prices.

Consequences:

(1) The present program with no changes would result in further accumulation of government stocks, loss of foreign markets, higher government costs and no price change for U.S. consumers.

(2) Reducing acreage allotments to bring production in line with demand for edible uses of whole peanuts would reduce government costs but also reduce incomes of peanut producers and result in a capital loss from the reduction of their allotments. Consumers would still pay as much for peanuts and peanut products. Foreign trade would be reduced since prices would be above the world market and most domestic output would be used in this country.

(3) Establishing a two price system was seriously considered by Congress in 1976 and is likely to be considered again. Such a program would offer growers less income from part of their crop but would open the way for expanding production for oil and meal uses. Government costs for storage of surplus would be reduced. Consumers would pay as much for products made from whole peanuts, but prices for peanut oil and meal could be reduced if supplies were adequate. Foreign trade in peanut oil and meal could be increased. Some government costs for the program would be involved in administering the program but probably less than the current program.

(4) Shifting to a system of target prices, loan rates, and deficiency payments would place peanuts in a program similar to other major commodities. It would mean lower returns per acre for peanuts than now received by producers under the restrictive program. However, this program should give producers more freedom to shift from one crop to another and peanut acreage could shift from smaller to larger, lower cost producers.

Level of target prices and loan rates would be a key question as to how producers would react and government costs would be affected. Producers income from peanuts might not change very much from the current program, but they would suffer some capital loss from reduced allotment values. Consumers would probably see slight declines in prices of peanuts and peanut products but not very significant. Costs of marketing and processing would continue and make up a large part of the retail price to consumers. International trade in peanut products could increase if market prices were competitive with world market prices or if the government subsidized exports.

(5) Shifting to a program similar to soybeans would bring considerable reductions in incomes from growers but would be the least costly to government. Consumers would have the lowest prices for peanut products if loan rates were set in line with market prices. Total output could decline especially in high production cost areas.

WOOL

The wool support program was first authorized under the National Wool Act of 1954 with extension to 1977 in the 1973 Act. The Wool program was enacted by Congress on the assumption that (1) wool is an essential and strategic commodity which the U.S. does not produce in sufficient quantities and grades to meet the domestic needs, and (2) desired domestic production is impaired by depressing effects in world markets.

An incentive price is established. Farmers sell their wool on the market and if average prices received by all producers is less than the incentive price, a producer gets a deficiency payment based on the percentage difference between the incentive and average market price and the returns received by each individual producer. Payments have been made every year except 1973.

The issues in the wool program involve the cost to the government and whether the payments are really providing an incentive to produce more wool, and promotion efforts are really helping U.S. producers. Domestic wool production has dropped each year since 1960.

Policy Alternatives

The policy alternatives include: (1) continue the present incentive program; (2) discontinue all payments and support prices; (3) and modify the support program by establishing a loan rate at a set price.

Continuing the present program would save the government the cost of payments which have ranged from zero to $110 million annually since 1972. However, this cost is paid by revenue from import duties which would probably be decreased if the wool incentive program were discontinued. Producers might receive less income from wool and reduce their production still further.

Shifting to a straight commodity support program would reduce risk for producers from fluctuating world prices. It could result in government costs for storage of wool in years when prices dropped below the loan rate.

If the loan program did not provide any incentive to increase production, or discouraged production, then more wool would have to be imported to meet domestic needs.

TOBACCO

Tobacco support programs date back to the Agricultural Acts of 1938 and 1949, as amended. Marketing quotas and loans made to growers through their marketing associations are used to support each of the major classes – burley, flue-cured, Puerto Rican, sun-cured and cigar, dark air cured, and dark fire cured.

The major issues in the current tobacco programs are: (1) whether tobacco should continue under strict control of production and marketing; (2) whether supports should be shifted to respond more with the relative market value of different types of tobacco; and (3) whether government funds should be used to encourage production of a commodity that carries risks to health.

Policy Alternatives and Consequences

Four possible policy alternatives for tobacco are: (1) keep the present program with its restricted control of acreage and marketing quotas; (2) modify the program to a system of target prices, support loans and deficiency payments; (3) allow transfer of leases to interregional and interstate basis; (4) eliminate all price support and acreage control programs.

By maintaining the present program, many small farmers would continue to get the benefits of a high return from their restricted acreage allotment. Government costs are relatively small but have been going up as CCC stocks have risen. Present support prices do not fully reflect the market usability of the tobacco leaves. Overseas producers are increasing output and may provide competition for our producers.

By shifting to a system of target prices, support loans and deficiency payments, producers would be protected against some risk, prices could reflect the value of various grades, and government costs could decline unless deficiency payments were high. However, incomes of producers could decline, and some small growers might be forced out as larger, more efficient producers expand production, if they were permitted to do so. If permitted, acreage allotments would likely shift to production on larger, lower cost producing farms.

If all tobacco programs were eliminated, production would move to larger farms, become more mechanized, and many small farmers could no longer compete or would have sharply lower incomes. Moreover, there would be a considerable impact on the value of the land. The current market value for leases to produce tobacco is 25 cents per pound. This is the value of the allotment and does not include land, buildings, or equipment. Should farmers be compensated for loss of the capital value of their allotments?

Incomes of tobacco producers would decline. If many of the small producers did not have the income from tobacco, they would be forced to produce lower value crops, accept much lower incomes, and even be forced to apply for welfare aid assistance in some cases.

Small towns would suffer as smaller producers would have less income to spend for production and consumer goods. Consumers would pay about as much for tobacco products under any system since raw tobacco is only a small part of the total cost of manufactured products.

The health issue is the main argument made by some who want to eliminate tobacco price support programs. They argue that the government should not spend money to promote a product that may cause serious health problems, when it is also spending money to discourage use of tobacco products as harmful to health.

Foreign trade in tobacco could be increased if producers can compete in the world market. Some classes of tobacco are more dependent on foreign trade than others. From 50 to 60 percent of flue cured production has traditionally been exported as compared to 10 percent or less of the burley crop. Flue cured exports have been shrinking. Under the present restricted marketing quotas system and high support prices that do not fully reflect the most usable products, tobacco exports are adversely affected.

EXTRA LONG STAPLE COTTON

The extra long staple cotton, (ELS), program includes acreage allotments, marketing quotas, nonrecourse loans and supplementary payments. ELS is a special type of cotton that makes up less than one percent of the total U.S. cotton production. Upland cotton is the major type and produces most of the total income of cotton producers. Most ELS cotton is grown in Arizona, New Mexico and west Texas. Only about 2,000 growers are involved in the program.

The costs of producing an acre of upland and ELS cotton are quite close, but the yield of ELS is only about 60 percent as much. Special ginning equipment is also required to handle ELS cotton. Many growers in 1976 did not use their allotments because of high irrigation costs and the lower yields of ELS cotton. Domestic production is less than needs and some is imported to make up the deficiency. The 1976 planted acreage was only about two-thirds of the national allotment.

Policy alternatives are: (1) keep the present program to provide an incentive to produce a specialized commodity. Loan rates have been under market prices so CCC has not acquired stocks. Payments are the main government cost. (2) Shift to no program and let mills contract with growers at a price to cover growers costs and some incentive to grow the crop; (3) Shift to a target price and deficiency loan program similar to upland cotton. Government administrative costs could be reduced if the program could be handled along with other cotton. Deficiency payments could be less than current payments that are made irregardless of market price.

Unless ELS production is maintained or increased, mills will import more of this special cotton.

Consumers would not be affected much by any program alternative since the costs of ELS products are higher and few consumers buy this very specialized product.

The ELS gin operators would be affected if production were completely eliminated, but more likely contracts would keep some production in this country.

SUGAR

The Jones-Costigan Act of 1934 and the Sugar Acts of 1937 and 1948 formed the basis of U.S. sugar programs until 1974. After the Secretary of Agriculture had determined total needs, quotas were assigned to domestic and foreign producing areas that would maintain target price levels. In the latter part of the Act, prices were established by using a formula composed of farm production costs and the Consumer Price Index.

The Act which expired in 1974, had the goals of providing stable retail price to consumers and reasonable returns to domestic sugar growers, which provided a profit above the cost of production. The Act also regulated labor relations with migratory workers, import tariffs, excise taxes, and the importation of sugar products.

Sugar is an unique commodity in that high capital investments in processing facilities are required near areas of production. So an unstable market is a strong deterrent to capital investment. When sugar prices fall, farmers shift to other crops leaving the processor without the raw commodity to process. Virtually all other countries of the world have price stabilization programs in their domestic markets and long term trade commitments to stabilize their exports.

Policy Alternatives and Consequences

For sugar, the policy alternatives include: (1) continue to operate as in 1975 and 1976 with high import quotas and low level import duties; (2) reinstate the Sugar Act that expired in 1974; (3) set up variable import duties to stabilize prices; (4) join the International Sugar Agreement; (5) have the government buy foreign sugar and resell it in the U.S. market at administered prices; (6) set up direct payments to producers based on the target price concept, along with domestic production controls.

If the U.S. decides to operate without new legislation, some believe that the likely results will be a gradual demise of the domestic sugar industry as present capital investment is depleted; extremely volatile prices, and uncertain supplies during periods of short world supply.

Reinstating the previous sugar program would protect producers in this country by controlling imports more closely. Consumers would pay slightly more for sugar but prices would be more stable.

The government would be more involved under any program that would require setting prices and distributing import or domestic production quotas, for in effect, it would determine the rights of foreign and domestic producers to a share of the U.S. sugar market.

Technological development in producing high fructose corn syrup opened the way for U.S. produced corn sweeteners to compete for certain uses of regular cane or beet sugar. High sugar prices in 1974 and 1975 stimulated the demand. Any sugar program will influence the level and stability of demand and prices for all sweeteners produced in this country.

CROP INSURANCE AND DISASTER PAYMENTS

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WHAT ARE THE ISSUES?

The Agriculture and Consumer Protection Act of 1973 initiated a new program to protect producers who have wheat, feed grain, or upland cotton allotments against income losses due to prevented planting or low yields for the period 1974-77. In the first two years (1974-75) of the Disaster Payment Program (DPP) administered by the USDA's Agricultural Stabilization and Conservation Service (ASCS), payments totaled $840 million. Without legislative action, the DPP and associated benefits will expire after the 1977 crop. The immediate issue is whether Congress should extend the DPP intact or in some modified form.

This question is only part of the broader issue of the proper role of Government in offering risk protection against natural hazards faced by farmers. The Federal Government also has programs other than the DPP which offer risk protection to farmers, as does the private insurance industry. The Federal Crop Insurance Corporation (FCIC) is a federally chartered agency which has offered insurance to farmers since 1939. Even considering all 22 crops insured by FCIC, the DPP is still a much larger program in terms of participation and payments or indemnities to farmers. In comparison, FCIC paid out a total of $126 million in 1974 and 1975.

Other disaster protection is also available through such programs as the Farmer's Home Administration (FmHA), but most of this relief is of an emergency nature and is restricted by the requirement that a disaster be declared by the President, a Governor, or other official. Such federal programs supplement the private insurance industry which has traditionally offered protection against hail and fire, but which has never successfully offered multiple-peril insurance on a large scale.

Within the broad issue of the proper role of the Government in providing risk protection to farmers, specific questions relate to the type of programs that should be available. Should both the DPP and Federal Crop Insurance (FCI) continue for the program crops? Should the Government in some way encourage the private insurance industry to provide multiple-peril crop insurance? Should provisions of any of the programs be revised? Should the DPP be expanded to include other crops such as soybeans, oats, or tobacco? Should the overlap among these Government programs be eliminated? How should the programs be structured – what should the payment rates be, who should pay the cost of premiums, and what losses should be covered?

WHY IS THIS AN ISSUE?

Farmer's increased need for disaster protection as production costs increase, apparent inadequacies in the current programs to meet these needs, apparent abuses or inequities in the present programs, and the high Government expenditures since 1974 make disaster protection an issue. The DPP was adopted with little consideration of how the specific provisions would work and with little knowledge of its likely costs to the Government. It has proven to be costly and several weaknesses in its provisions have become apparent from experience gained during the first two years of operation.

Specific problems with the current DPP are numerous. Many of the provisions would not be offered in a sound insurance program.

1. The payment rate of the larger of either one-third of the target price or the established deficiency payment rate is considerably below costs of production.

2. While farm allotments and bases have not been used for production control since 1973, they are still preserved by ASCS as a basis for the DPP. Benefits are based upon the short fall between the actual production and the farm's base production (allotment times the ASCS established yield) making producers without allotments ineligible for benefits. Those who overplant their allotments face reduced per acre benefits or no benefits.

3. The determination of eligibility for benefits is based upon two-thirds of the established yield, but once a farm is eligible, payments are based upon the entire short fall between established allotment production and actual production. As a result, one bushel or pound of

production above the critical eligibility level can make a producer ineligible for a large payment.

4. The provision which allows producers to receive payments if prevented from planting is difficult to administer and subject to abuse.

5. Cotton receives special treatment under the prevented planting option since benefits can be received even if another crop is planted later. If a producer plants a substitute crop for wheat or feed grains his payment is reduced proportional to production from the substitute crop.

On the positive side, the DPP has been beneficial and may have kept numerous farmers out of bankruptcy during unfavorable crop conditions. Many farmers like the program because it offers disaster protection without a premium cost. Farmers in high risk areas where FCI is unavailable now have protection against natural crop hazards – with the increased specialization of farms and higher costs of production, this protection is important as a means to guard against loss of income.

The DPP is in a sense in competition with the FCIC. Farmers eligible for the DPP may be less inclined to purchase FCI than if the DPP were not available. However, not all producers are able to purchase FCI since the enabling legislation requires FCIC to operate a sound program with authority to refuse insurance where the risks are excessive.

As a result, FCI is not offered in many counties or even in areas or to producers within counties where the risks of crop failure are high. Even where available, FCI has a low level of participation with only about 17 percent of the eligible acreage of wheat, corn, barley, grain sorghum and cotton insured in 1976.

The private insurance industry has misgivings about both the FCI and the DPP because such programs may hurt their present or potential sales. Private industry has long been interested in providing multiple-peril coverage of crops and has attempted to do so in the past. However, these efforts have been unsuccessful because of the unavailability of reinsurance to spread the risks over time, lack of data on which to base rates, and having to compete with the FCIC which receives a Treasury appropriation to cover administrative and operating expenses.

Policy Alternatives

A wide range of options may be considered for adoption through new legislation.

1. Renew the DPP without modifying any of its provisions in the 1973 Act.

2. Allow DPP to expire and allow the FCIC to continue operating under its present charge. Disaster protection would then be the same as before the 1973 Act was passed.

3. Encourage the private insurance industry to offer multiple-peril crop insurance. This might be accomplished by offering FCIC reinsurance to help spread the risks over time.

4. Terminate the DPP and expand the FCIC program. Under this option, FCI coverage would be made nationwide for the program crops and the now minimal effort at selling and promoting FCI would be expanded. Government premium subsidy could be used to increase the participation in the program.

5. Amend the DPP provisions to make the protection more in line with the needs of producers and to remove some of its unsound provisions. This includes the unequal treatment between cotton and the other crops with respect to the prevented planting provisions and the problems associated with making a payment of at least one-third of the maximum possible payment on the basis of a threshold farm yield.

6. Eliminate the current overlap between programs. This could be accomplished in a number of ways such as requiring the purchase of FCI if available in order to be eligible for disaster payments or not offering the DPP to producers who were eligible to purchase FCI.

7. Expand the emergency loan program offered by FmHA and the disaster assistance offered by other agencies to reach more producers.

Consequences

The results of any action taken by the Congress will affect the extent of coverage of natural disasters that are faced by farmers, the rate at which they are indemnified, and the costs of this protection to taxpayers. The ability of farmers to purchase inputs and obtain credit in years of low crop yield are substantially dependent upon the level of disaster protection provided.

To the extent that benefits are capitalized in the land values, any governmental role in financing the program could affect the prices paid and received for land. Farm income protection is important not only to farmers but also to their communities.

Beyond the farm gate, the impact of farmer disaster protection on consumers is difficult to evaluate. However, there is evidence that reducing the risks associated with crop production would increase the supplies of food and reduce food costs in the long run.

EXPORT AND IMPORT POLICIES

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WHAT IS THE ISSUE?

Grain export embargoes, beef and dairy imports have made export and import controls major food policy issues. The issue of import and export controls involves the conditions under which foreign producers and consumers are to have access to U.S. markets as either sellers or buyers. The nature of the issue varies depending upon whether the general economic and specific commodity situation is one of short supply and high prices or surpluses and low prices as indicated below:

U.S. Supply Situation	Controls	
	Export	Import
Short Supply	1. Embargoes 2. Licensing 3. State trader 4. Trade agreements	1. Increase quotas 2. Lower tariffs 3. Trade agreements
Surplus	1. Subsidies 2. Two price plans 3. P.L. 480 4. Trade agreements	1. Increase tariffs 2. Lower quotas 3. Other nontariff 4. Trade agreements

If the situation is one of short supply and high export demand consumer and government pressures build to impose export controls. Such controls may be in the form of export embargoes, export licensing, trade agreements or the government could become the exporter as a state trader.

Trade agreements may be used to ration supplies among major customers by providing both minimums and maximums on shipments. In times of short supply, on the other hand, trade agreements may be used as a form of import controls to assure a supply of commodities imported such as sugar or coffee. The U.S. might also react to a short supply situation by lowering tariffs, increasing quotas or even subsidizing imports.

In a surplus situation the problem is one of low prices, insufficient demand and excess foreign competition. The reaction is one of moving commodities out of the U.S. and preventing them from being imported. Export assistance in the form of subsidies, plans which price exports at a lower level than domestic sales, shipments under P.L. 480 are proposed and frequently adopted. Trade agreements are viewed in the context of providing an assured market and incentives exist to establish international commodity agreements among exporters for a minimum price floor. Problems of excessive foreign competition are dealt with by pressures to impose tariffs, quotas, or other nontariff barriers to products entering the U.S. Informal trade or "orderly marketing" agreements are sometimes negotiated.

WHY IS IT AN ISSUE?

Both foreign producers and consumers want access to our markets. Foreign consumers and livestock producers want access to our grain. For grain the U.S. represents one of only a few major excess supply sources. Access to it can actually mean the difference between the availability of food and shortage. At home, however, U.S. consumers apply pressure on public officials to control or stabilize rising food prices by limiting exports. Producers fear embargoes will both destroy foreign markets and be used to place an upper limit on prices.

Surpluses bring calls by grain producers for export subsidies and from livestock and milk producers for import controls. Both beef and dairy producers suggest that import controls are necessary if they are to produce the quality and quantity of beef and milk demanded.

Despite particular protectionist policy, the U.S. government has historically expounded the virtues of free trade in agricultural products. It has been a leader in efforts to negotiate lower trade barriers. This policy has both selfish economic and humanitarian basis. From an economic standpoint U.S. producers have had lower production costs for major food and feed grains than most other countries. From a humanitarian standpoint free trade results in more food being available to more people of the world at a lower cost.

Exports are critical to a prosperous farm economy. Food and fiber exports are necessary to pay for the products we import, especially oil.

THE CURRENT SITUATION

Legislation for export controls in situations of short supply is provided by the Export Administration Act. This Act gives the President the power to impose controls for three reasons: a short supply situation, foreign policy or national security. The President has substantial discretion in determining when these reasons are satisfied. The President also has substantial latitude to reduce import tariffs or increase quotas in a short supply situation as was done in the case of beef and dairy imports in the early 1970's.

For surplus situations much of the export assistance and import protection stems from the need to complement U.S. target and price support programs and control program costs.

Beef and sugar are special cases in that import quotas are not tied to price supports. In beef and textiles, quota restrictions have been supplemented with "orderly marketing agreements." Controversy currently exists on the need to impose tariffs on palm oil entering the U.S. in competition with soybean, cottonseed and peanut oil. When sugar prices rose sharply in the early 1970's, an intensive system of legislatively mandated quotas were removed.

POLICY ALTERNATIVES

Presidents have generally favored flexibility to manage import policy in line with what is deemed to be in the national interest as is done with other aspects of foreign policy and is currently the case under the Export Administration Act.

Export Controls

Four basic alternatives to present policy exist for controlling exports in a short supply situation: (1) remove authority for embargoes; (2) congressional power to reverse Presidential action; (3) export licensing and (4) centralization of exports in the hands of government. Specific proposals exist which would give Congress the power to reverse a Presidentially imposed embargo within a specific period of time and to have the Commodity Credit Corporation act as an exclusive export agency.

A move back into surpluses will once again raise a spector of concerns about export subsidies, two price plans, and increased levels of P.L 480 shipments. Such concerns will be increased if support prices are raised above world prices. Pressure will once again develop for international commodity agreements to establish price floors and/or preferential trade agreements.

Import Controls

Import alternatives relate to the level of tariff and non-tariff restrictions for commodities, as well as the placement of responsibility for imposing import controls. Excess supplies and generally low prices by foreign nations have created substantial pressure to increase exports for milk, beef and sugar to U.S. Producer and consumers will question the extent to which beef and sugar quotas should be further limited by law or eliminated.

CONSEQUENCES

Generally speaking, lower export and import controls represent movements toward free trade.

Producers are adversely affected by export controls. Controls lower producer prices. In the longer term export controls jeopardize the dependability of the U.S. as a source of grain. The unpredictability of export embargoes results in increased uncertainty and price instability. On the other hand, export assistance in the form of subsidies on P.L. 480 helps to expand foreign markets and raise prices. However, they transfer our surplus problem to the foreign producer. Producers of commodities on which import controls exist benefit from higher prices. However, U.S. producers in total might be hurt in the sense that import controls create incentives for other countries to control imports of U.S. products where we have a comparative advantage such as grains. U.S. producers cannot expect to have free access to foreign markets if foreign producers are denied access to U.S. markets.

Agribusiness is most adversely affected by uncertainty of government policies with respect to either exports or imports. Most firms that deal in exports or imports are multinational and therefore deal in the products of all countries. While making the U.S. a state trader would substantially change the relation of government and the major grain exporters, they would still be major factors in domestic and international grain trade. Similarly agribusiness has substantial flexibility to adjust to import controls but would prefer a free trade situation.

Foreign Consumers are denied access to our markets by export controls. World prices rise relative to U.S. prices. Export assistance, on the other hand, increases supplies available to foreign consumers and lowers their prices. Import controls prevent foreign products from moving into U.S. markets and thus tend to benefit foreign consumers.

U.S. consumers benefit from lower food prices resulting from export controls to the extent that lower farm prices result in lower retail prices. While producers desire no export controls, if food scarcity develops the public will likely demand that the impact of food shortages be minimized by embargoes, licensing or state trading. While export assistance in the form of P.L. 480 or subsidies increase consumer prices, consumer willingness to support P.L. 480 in the face of higher prices results from humanitarian considerations.

Government has substantial power to influence domestic farm and food prices by export and import policies. Such policies, however, run counter to our basic free trade policy. Government costs are increased by export subsidies and P.L. 480. On the other hand, import controls of price supported commodities reduce government costs and are in fact, essential to maintaining the integrity of these programs if domestic support prices are established above world prices.

GRAIN RESERVES: ISSUES AND POLICY CHOICES

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WHAT IS THE ISSUE?

The main issue is whether grain reserves shall be held by the U.S. government for the purposes of meeting emergency needs and reducing year-to-year market price variations, or whether publicly-held grain reserves will continue to be a by-product of supporting certain farm commodity prices. From this basic issue, several related questions arise. What instabilities come from no, or inadequate, reserves and who is affected? Who gains and who loses from reserves? How large should reserves be? What mix of commodities should be included? What price and quantity rules should be established for acquiring and releasing stocks? What will reserves cost and who will pay this cost? Is the United States morally obligated to stockpile food for the world's hungry people?

WHY IS THIS AN ISSUE?

The main reasons given for having commodity reserves are:

1. To have adequate supplies for domestic needs from one production period to the next;
2. To reduce price risk and improve efficiency in grain production by encouraging long-term investments in agriculture;
3. To provide the basis for more stability in the livestock and poultry industries;
4. To stabilize food prices to consumers;
5. To maintain or enlarge exports and encourage trade liberalization by being a reliable supply source;
6. To facilitate food assistance programs for needy people at home and in other countries.

Recent interest in publicly-held grain reserves comes from: year-to-year variations in supply since 1972, fear of food shortages in poor crop years, export embargoes, increasing commercial exports, higher food prices to consumers, and sharp fluctuations in grain prices.

World grain stocks (including rice) averaged 170 million tons in 1960-72, enough for three month's consumption. By 1975, stocks had declined to 123 million tons. With good crops in 1976, stocks are estimated to rise to 150 million tons at the beginning of 1977-78 marketing year.

From 1950 through 1971, food-deficit countries relied upon the U.S. and other major grain exporters to carry sufficient stocks to stabilize supplies and prices. This confidence was badly shaken by the set of circumstances occurring in 1972-75 which depleted grain stocks in the U.S. and world-wide, causing concern over possible food shortages.

GRAIN RESERVES UNDER THE 1973 ACT

Provision was made to establish a reserve of inventories not to exceed 75 million bushels of wheat, feed grains and soybeans to alleviate distress caused by natural disaster. Except for this small reserve, the Act continued the price support loan and storage program which has been used since 1938 to provide floors under prices of specified products. Reserves are acquired when farmers deliver these products to commodity credit corporation instead of redeeming their loans. CCC stocks can be released when prices rise above certain levels.

Under this non-recourse loan program, government-held stocks tended to accumulate in the 1950's and 1960's as agricultural technology boosted total crop production more than enough to offset supply-reducing effects of land retirement and additional exports under P.L. 480. Once acquired, these surpluses were regarded as costly and price-depressing. In times of greatly increased foreign needs due to war or crop failure, the surpluses are suddenly transformed into "stragetic reserves."

Few farmers participated in the loan-and-storage program in 1973, 1974, or 1975 but they are doing so for 1976 wheat and feed grain crops. When these loans mature, CCC will again own stocks of grain unless market prices rise enough so farmers pay off the loans.

FOOD RESERVE POLICY CHOICES AND THEIR EFFECTS

The principal policy choices in regard to reserves are: stocks held by producers and marketing firms with little government intervention; supplementary government-held stocks; multi-national reserves held by importing and exporting nations; international commodity reserves; and some combination of these.

Reserves Managed by the Private Sector of the Economy

Producers and marketing firms own and control reserves. They decide how much to store and when to sell or buy. In good crop years prices will decline; when crops are short prices will rise sharply.

Development of private grain stocks would be consistent with a farm policy of setting prices in the market. Under this alternative the stocks would primarily be used for commercial objectives. Producers hold grain stocks because they expect the price to rise more than enough to cover their storage costs. The grain trade would tend to be more concerned with volume and margin per unit rather than holding stocks for humanitarian purposes. Responses to an emergency might be too slow.

When food is stored, someone pays storage costs. These costs will either be passed back to the producer as lower prices or forward to the consumer as higher prices.

U.S. experience in marketing years 1972-73, 1973-74, and 1974-75 demonstrated what can happen to prices received by farmers and paid by consumers for food when stocks are depleted due to production shortfalls and greater foreign demand. This may lead to export restrictions and uncertainty among importers as to U.S. reliability of a supply source.

Consequences of private reserve management are:

(1) Price instability to producers due to variations in world supply and demand conditions, but higher average prices over time;

(2) Higher food prices in years of short crops but little, if any, decline in years of abundant supplies due to the inflexibility of marketing margins;

(3) Possibility of under or over-holding of reserves by producers and processors because of inadequate market information and lack of organization; and

(4) Low government costs for administering, storing and maintaining food reserves; storage costs shared by producers and consumers.

Supplementary Government-Held Reserves

Some people feel that grain stocks carried voluntarily by producers and the grain trade will be inadequate and that the nation's food policy goals will be more nearly achieved by a well-managed public grain reserve program.

One proposal for managing reserves, in effect, sets both upper and lower limits on farm prices. At the lower limit, the loan prices, stocks are bought; at the upper price limit, stocks are released. A variation of the release provisions calls for disposal of a certain percent of stocks for each 10 percent increase in price above the release activating price. Prices fluctuate between the two levels. The general price level is the market price determined by quantity of stocks. This procedure may come into operation if the 1973 Act is extended but with higher target prices and loan rates.

Another approach establishes a level of reserves which the government holds until a policy decision is made that an emergency exists, justifying release of stocks.

Advocates of publicly-held reserves point to these desired results: (1) increased price stability, (2) reduced risk, (3) less need to impose export embargoes, and (4) greater consumer assurance of an adequate and dependable supply of grains. Price stability reduces risk in livestock production. It makes marketing decisions easier for grain farmers. It reduces swings in food prices and thus helps reduce inflationary pressures as well as consumer and labor pressures on government.

Those who oppose government reserves suggest that reserves: (1) distort market signals, (2) depress farm prices, (3) discourage importing countries from holding reserves – placing the full burden of reserves on the American taxpayer, (4) are subject to political manipulation and (5) are costly to manage and hold.

Reserves Held by Importing and Exporting Nations

Besides establishing a supplementary publicly-held reserve, the U.S. government could encourage other countries to establish their own grain reserves. An additional stabilizing influence on world commodity markets could result from setting up a world-wide information system on crop prospects and national grain stocks. Bilateral or multilateral import-export agreements might be considered as a way to reduce foreign demand uncertainty. So long as free trade does not exist and nations maintain programs to protect their agriculture, grain reserve policy is likely to coexist with export restrictions, import controls, farm price supports and production controls.

Consequences of multinational reserves are:

(1) Greater stability in world commodity prices;

(2) Adequate supply of food for U.S. consumers;

(3) Lower cost to American taxpayers than previous storage programs;

(4) More efficient food production;

(5) Location of reserves where needed; and

(6) Possible depressing effect on grain prices.

Reserves controlled by an international organization

Acquisition and distribution of emergency grain reserves by an international organization has been proposed as a method of preventing mass starvation after natural or man-made disasters. Such reserves would not be used in situations of chronic malnutrition due to overpopulation. International grain reserves could also be used for stabilization of commercial markets.

Either program could be financed by contributions in kind from food exporting nations and in cash from developed, but food importing, countries. Size of reserves, amount of contributions and recipients' eligibility requirements would be established by agreement.

Probable consequences of internationally controlled emergency grain reserves include:

(1) Ability to respond quickly to alleviate human hardships caused by unpredictable calamities;

(2) Little effect on prices so long as reserves are small and not released in commercial channels;

(3) Possible pressures from poor, hungry nations to release reserves for chronic food deficit problems;

(4) Possible attempts by food surplus nations to enlarge reserves to prevent low farm product prices; and

(5) Complex administrative, political and diplomatic problems peculiar to an international organization.

FOOD AID – DOMESTIC AND FOREIGN

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WHAT ARE THE ISSUES?

In most of the world, food moves to consumers through the marketplace. If people and nations can pay for it, they will usually be fed. What if they cannot pay for it? Food aid, as distinct from technical aid for food production, has been one answer in nations rich enough to provide it domestically or internationally. At one time, almost all food aid was privately administered by the family, the church, and other charitable organizations. Public food aid on a large scale began only in this century due to the willingness to have government attend to the needs of people. Surplus disposal and improved foreign relations have also been major objectives.

Substantial food aid has been provided domestically in the U.S. since the 1930's and to foreign countries since the 1950's. It does not seem a likely policy alternative that the public would reverse the path of the past and eliminate all food aid. So there are two issues: (1) How much public food aid should the U.S. provide and to whom? (2) How should food aid be administered?

WHY ARE THESE ISSUES?

A combination of developments has raised public concern about food aid issues: Short food supplies, inflation, population pressures, and increased awareness of malnutrition abroad and at home. In spite of doubts about effectiveness of government to administer food aid and disappointments in the results of that food aid, evidence of continued support is seen in public resolutions and rising appropriations to feed the needy.

CURRENT FOOD AID PROGRAMS

Domestic

Food Stamp Program. Though first operated in 1939-41, it was reinstated in 1961 and has expanded fourfold in the last 5 years. It is administered by the states. The amount of aid, in the form of subsidized food coupons with cash value, depends on the person's income and size of family. A little over 17 million persons, or 8 percent of the U.S. population, currently are recipients, with an average aid of $24 per month per person.

Child Nutrition Programs. These include the School Lunch and Special Milk Programs, initiated in the 1930's, as well as School Breakfast and Special Food programs (child, summer feeding, and so on) added in the late 1960's. Children receive partially or wholly subsidized food at school. The School Lunch program reaches over 25 million children, and the Breakfast program over 2.3 million.

Food Distribution. Initiated in 1933, this program authorized the distribution of food purchased by government to support the prices of certain farm commodities. Recipients are needy families on American Indian reservations, the schools, and other institutions.

Supplemental Food for Women, Infants, and Children (WIC). This program, started in 1974, provides food aid to pregnant and nursing women and young children whose need for an adequate diet is critical.

Foreign

In 1954, during a period of falling farm prices and mounting government-held "surpluses," the Agricultural Trade Development and Assistance Act, commonly known as Public Law 480, was passed. It now has two parts: (1) Food donations to countries experiencing disaster, and (2) Sale of food on easy credit terms.

The current outlay is just over $1 billion, about 80% for concessional sales, and much less in quantity than previously. Over 80 countries are recipients, with Bangladesh and India the largest receivers. Only a small fraction of the hundreds of millions believed to be undernourished throughout the world are reached.

Federal Costs

In Fiscal Year 1976, the federal cost of our domestic and foreign food aid program was:

Domestic	Cost (Billions)
Food stamps	$5.70
Child Nutrition	
School Lunch	1.50
Special Milk	.14
School Breakfast	.10

Special Food	.15
Food Distribution	.53
WIC	.16
Foreign	
Public Law 480 and other	1.05
Total Food Aid	$9.33

Consequences

To Producers. These programs could add at the most about 4.5 percent to the value of total consumer food purchases compared to what they otherwise would be without a program. But the effect would more likely be about 3 percent due to some substitution of aid for commercial purchases. The effect on producer prices and incomes would be upward, but most likely less than the maximum possible of 15 percent, due to the long run inducement for greater production. However, programs involving specific commodities, such as milk and meat, would affect those producers relatively more.

To Agri-business. Food handlers benefit from food aid by greater volume according to their function.

To Foreign Agricultural Trade. A slight downward pressure on commercial exports would result, due to somewhat higher prices. But total exports could be increased, with a maximum of 5%. Conversely, the added demand would tend to increase imports slightly.

To Consumers. Although the net benefits to food aid recipients are debated, low-income consumers, particularly domestic, would undoubtedly benefit from the greater quantity and quality of food at lower cost. Over 17 million food stamp recipients and 25 million school children are reached. Consumers with higher incomes would face a small increase in food prices, probably from 1 to 3 percent, given the greater production.

To Taxpayers. With a continuation of programs at the present level, but not at the rapid rate of expansion of a few years ago, the taxpayer's burden would depend on changes in the size of the population, personal income levels, and tax revenues. At present the $9.3 billion total food aid is less than 3 percent of all federal annual outlays, with a quarter percent foreign aid.

SUBSTANTIAL FOOD AID EXPANSION OR CONTRACTION

Food Aid Expansion. Substantial food aid expansion could take several forms: reaching more people in targeted groups, increasing the level of cost-sharing for recipients, or inclusion of more groups. A domestic annual food aid budget of $10-15 billion, or about 4 percent of the total federal budget, would more nearly reach all of the 25 million now designated as below the poverty level in income, and more of the needy children. A possible target for foreign food aid would be to regain the real relative level of aid of the 1960's and maintain it at a stable proportion of the federal budget. This could reach $5 billion a year, about 1 percent of the federal budget.

Food Aid Contraction. Substantial food aid reduction would involve a reversal of recent trends with a lower real dollar federal cost, a lower proportion of the total budget, and smaller number of recipients, perhaps only coverage of emergency assistance. This could result in a domestic food aid budget of a constant real value of perhaps $5 billion, about 1.5 percent of the total budget and decreasing as budgets grow, and with 5 percent of total population being reached.

Consequences. Expansion of domestic food aid to $10-15 billion and foreign aid to $5 billion would likely have consequences in the same direction as indicated earlier for the present program but with substantially greater magnitude. Substantial reduction of food aid below current levels, with domestic being $5 billion annually and foreign donations of $300 million annually, would have the opposite effects.

SUBSTITUTION OF GENERAL CASH PAYMENTS FOR FOOD AID – DOMESTIC ONLY

Domestic food aid could be replaced by a new general welfare or income maintenance policy. With sufficient public income aid to bring incomes to a minimum level judged adequate for food and other needs, the recipients would have a greater choice in their spending, and the public would benefit from elimination of administrative duplication, conflict, and complexity.

But it can also be argued that the nutrition of people, particularly the young, can best be served when aid consists of specific foods or food purchases. Food aid has been more palatable politically than income payments. The effects on food demand, food prices, and product prices likely would be less than with food aid.

CHANGE IN FOOD AID ADMINISTRATION

Domestic Program Consequences.

Food aid is administered by the U.S. Department of Agriculture (USDA) in cooperation with state and local welfare and other governmental agencies. An alternative would be administration by another unit as the U.S. Department of Health, Education and Welfare (HEW).

A possible advantage would be that HEW, the administrative home for welfare programs, might have greater administrative expertise, offer efficiencies of joint overhead, and provide greater budget support. It would also remove a possible agriculture bias toward using food aid to solve "surplus" farm product problems.

However, retention of food aid in USDA provides a leverage for political support of commercial commodity programs and access to existing research about nutrition, food quality, and marketing.

Foreign Program Consequences.

Foreign food aid decisions are made substantially by the U.S. Department of State, with administration and distribution handled by USDA. The issue of any shift is the desired balance of goals pursued by these departments, such as acceptable farm prices vs. foreign relations. Another alternative appears to be for U.S. foreign aid to be administered by an international agency, perhaps in conjunction with a world food reserve. Such a shift removes food aid from domestic and foreign policy interests but also from U.S. control.

Table 1. Alternative Levels of U.S. Food Aid Funding Compared to Current Food Aid*

CONSEQUENCES TO	SUBSTANTIAL FOOD AID EXPANSION	SUBSTANTIAL FOOD AID CONTRACTION
	Domestic $10-15 billion annually Stable 4% of budget 25 million recipients plus all needy children Foreign $5 billion annually and stable 1% of budget	Domestic Stable $5 million annually 10 million recipients Primarily emergency aid Foreign Limited to donations of $300 monthly
Producers	Some increase in product prices Upward income effect Upward supply response	Incremental depressing effect on farm product prices and incomes
Consumers	Substantial cost-sharing to low income groups and countries Some increase in domestic market food prices Some released purchasing power for nonfood items	Less cost-sharing to low income groups and countries Incrementally lower market food prices
Foreign agricultural trade	Some reduction in commercial agricultural exports, but an increase in total exports Some increase in food imports	Negligible effect
Taxpayers	Higher tax burden Competition with other public programs	Incremental reduction in tax burden or release of funds for other purposes
Agri-business	Slightly higher volume of farm products and inputs	Negligible effect

* Prepared by R. G. F. Spitze, University of Illinois, and W. Neill Schaller, Farm Foundation.

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